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SUBJECT: A NEW YEAR'S BUDGET RESOLUTION

Ref: A) Tirana 00000813

¶1. (SBU) Summary: The GOA is set to take the unprecedented move of "freezing" seven percent of government spending for 2010 in response to lower than expected 2009 government revenues, a larger deficit and the economic crisis. This means that for revenues to match spending targets, there will need to be ten percent government revenue growth (taxes) as opposed to the 20 percent revenue growth needed under the original plan (ref A). Even though ten percent is still unlikely, this is a much more achievable budget forecast than the previous one, and is a welcome and much-needed dose of (relative) reality for the GOA in terms of budgeting. End Summary.

¶2. (SBU) Lacking the power to formally change the budget without Parliament's approval the Ministry of Finance (MOF), with the approval of the Prime Minister, is expected to "freeze" at least 26.7 billion lek (280 million USD) of 2010 projected budget spending and reduce 2010 revenue estimates by 30 billion lek (315 million USD). Historically, the government always waits until summer to revise the budget and rarely revises it down enough to reflect actual revenues. The Minister of Finance is said to have advocated for a thirty percent larger reduction, but it was deemed too drastic by the Prime Minister because it would cut spending by 11 percent.

¶3. (SBU) These cuts follow on the heels of the GOA's announcement in December that it was reducing 2009 "budgeted" revenues from 334 billion (3.5 billion USD) to 320 billion lek (3.36 billion USD). Should these revenue numbers hold, it would result in a deficit to GDP ratio of 6.9 percent - a new high. (Note: Per ref A actual 2009 government revenues will likely come in even lower around 297 billion lek (3.11 billion USD))

4) (SBU) Even with the spending reduction, the budget will still face many challenges. There is no estimate of what the official burden is of all the payments that were delayed in the last quarter of 2009 and that will have to be settled in 2010. In addition, compensation for flood afflicted areas will likely strain contingency funds. While Albania has averaged ten percent revenue growth over the past decade, the replication of that in 2010 is extremely unlikely, given much more modest economic growth in both Albania and across the region.

5) (SBU) Comment: This budget freeze represents a step in the right direction even if it doesn't fully bring spending in-line with revenues. By enacting this change now, the GOA avoids the huge amount of negative press it generated by revising the 2009 budget and delaying payments across the board to cut 2009 spending. This process has been clearly driven by the Minister of Finance, Ridvan Bode, who has pushed the GOA in recent months to set more realistic revenue and spending targets. Whether Bode is fully adopting a more conservative stance or merely getting Albania ready for its planned Eurobond offering, it is clear that the Prime Minister and the government are listening and want to avoid a repeat of the 2009 budgeting woes. End Comment.

WITHERS